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SUBJECT: ESTONIA: SCENESETTER FOR CODEL KOLBE

¶1. (SBU) Summary: Two and a half years after NATO and EU accession, remains a strong ally on all fronts. It is deeply committed to trans institutions and pro-free market economic policy. Estonia is a steady War on Terror (GWOT) in both Afghanistan and Iraq, where its troops have casualties including two killed in action, a stiff price for a country's inhabitants. While a centrist governing coalition in power since April maintained Estonia's pro-U.S. foreign policy line, inclusion of the party in the coalition has caused some turbulence. But this has not diluted the strength of the relationship and the shared values that make it easy ground with Estonia. With presidential elections scheduled for this year's parliamentary elections for next spring, however, the debate on difficult Iraq, will likely grow sharper. Over the longer term, we face a challenge as Estonians focus increasingly on Europe. End summary.

#### OVERVIEW

¶2. (SBU) Appreciation for U.S. non-recognition of the Soviet occupation remains an important source of good will towards the United States. Estonians never tire of expressing their country's gratitude to American interl U.S. policy in keeping alive Estonian aspirations during the Soviet occupation. Good will is a diminishing asset, however, as younger Estonians who did not feel the occupation as closely as their parents' generation with increasing opportunities to travel, study, and work in other European countries, younger Estonians are increasingly becoming focused on European issues. A major challenge for our public diplomacy is to engage the rising generation of Estonians to ensure that American-Estonian relations will remain strong in the long term.

¶3. (SBU) PM Andrus Ansip, of the conservative Reform Party, came into power in 2005 as head of a three-party coalition that includes the populist Centre Party and the left-leaning rural-based People's Union. Given the coalition's dispassionate economic policy, many observers assumed the government's shelf-life would be short. But Estonia's strong economy and tax revenues, and a fairly well-defined policy responsibilities among coalition partners, have helped paper over the cracks. In 2005, GDP grew by almost 10%, and growth accelerated even further during the first quarter of 2006. Since the early 90s consecutive Estonian government business- and investor-friendly economic policy featuring a flat tax and no tax on reinvested profits. Leading sectors include high-tech, manufacturing. The U.S. is the third largest source of Foreign Direct Investment in Estonia, although we are far behind the Swedes and the Finns.

¶4. Recently, preparations for this fall's presidential elections have heightened tensions on the political scene. The Estonian President is elected by the Parliament. If a majority can't be achieved in a series of three votes on August 28, the decision goes to an electoral college comprised of 101 members: 65 officials and 36 Members of Parliament on September 23. The President's election is ceremonial, but the election is important as it is widely viewed as a test campaign for parliamentary elections in March 2007, which will determine the next Estonian government.

#### FOREIGN POLICY

¶5. (SBU) Estonian troops have been serving side-by-side with U.S. troops in Afghanistan since June 2003, suffering 20 casualties including two killed in action. A mandate for troop deployment is set to expire at the end of 2006. The short-term priority is to encourage Estonia to renew its mission mandate and also contributes to the international stabilization and assistance for Afghanistan. In May 2006, Estonia dramatically increased its contribution in Afghanistan.

UK-led Provisional Reconstruction Team in the challenging Helmand Province of Afghanistan represents Estonia's major foreign mission for the next ten years. By the end of this year, there will be 150 Estonian troops serving in Helmand. Helmand produces the lion's share of opium in Afghanistan and has seen a resurgence of attacks. On August 12, an Estonian patrol came under Taliban attack on the Afghanistan-Pakistan border, resulting in the wounding of three Estonians.

¶16. (SBU) Estonia's relationship with Russia is difficult, though an investment in ties following Estonia's EU accession combined with recent political consultations give some cause for guarded optimism. On April 10, Kalle Laanet signed a Cooperation Protocol with his counterpart in Russia, outlining a two-year strategy for law enforcement cooperation in combating terrorism, and organized crime. Beyond Russia, Estonia has played an encouraging democratic reform and economic development in several former Soviet states. As part of those efforts Estonia has provided law enforcement assistance notably in Georgia. Former Prime Minister Mart Laar acts as an advisor to the Georgian government.

#### RAYTHEON BID FOR SHORT RANGE AIR DEFENSE MISSILE SYSTEM

¶17. (SBU) In order to meet mandated NATO entry conditions, the Estonian Defense Forces developed a requirement for a very short range tripod mounted defense system to protect both fixed and mobile facilities of operational importance. The total Ministry of Defense (MOD) system requirement includes 96 missiles, 2 (3-D) radars and 3 fire direction centers. In May, the MOD released a tender to two competitors: the USG/Raytheon Team and French MBDA Company team. The total budget is \$52 million, making it the largest military tender in Estonia's history. The USG/Raytheon team, labeled "Team A," is comprised of the USG (missiles, trainers), Raytheon (prime launchers), the Norwegian company Kongsberg (command and control) and Swedish contractor Ericsson (radars). The MBDA team submitted two bids, offering their Mistral missile system. The MOD will make a recommendation on the missile system package it prefers to the Government in the coming weeks. The recommendation should at least earmark the company that will win the tender. The MOD anticipates a formal announcement by the MOD in September.

¶18. (SBU) The Embassy has been actively cultivating a solid relationship with the Estonian government and adapting to their needs. To date, the Nordic Team proposal appears in a favorable position through the technical and financial phases of the tender. It is confident that if the decision is based on performance and price, the USG team is the outright winner. However, politics is the "X-factor" where the French hope to gain the necessary influence to force a favorable selection. The French are reviewing MBDA's strategy in previous competitions, it is anticipated that they will use every resource at their disposal, including extensive French government influence, to gain the necessary influence to force a favorable selection.

#### SUGGESTED POINTS

¶19. (U) During your meeting with Prime Minister Andrus Ansip you may

-- Express appreciation for Estonia's ongoing support in Iraq and Afghanistan during a critical time and encourage Estonia to extend its troop commitment in Afghanistan until December 31. While Estonian contributions are small in absolute numbers, they have provided staunch support in the GWOT. Estonian troops are on the front lines of international efforts to stem the heroin trade from Afghanistan.

-- Note Estonia's formidable economic progress and its high ranking in the Economic Freedom Index. Underscore importance of maintaining continued trade and investment in a investor-friendly environment to further economic success.

-- Encourage a fair and transparent decision process for the short range air defense missile system tender that is based on performance and cost. As this is a military tender, it is important that the GOE set a precedent for a fair and not prejudiced by politics.

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